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INFO OCT-01 EUR-25 EA-11 ISO-00 EB-11 AF-10 INR-10 TRSY-11

COME-00 AID-20 AEC-11 CEA-02 CIAE-00 CIEP-02 DODE-00

FEA-02 FPC-01 H-03 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 IO-14

FRB-02 OPIC-12 LAB-06 SIL-01 SWF-02 PA-04 PRS-01

USIA-15 /254 R

DRAFTED BY NEA/RA:HMMONTGOMERY:BAM

APPROVED BY EB:JKATZ

NEA/RA-SDSCHIFF

NEA/ARP-INFO

NEA/IRN-BMORTON (DRAFT)

EB/FSE-LRAICHT (DRAFT)

EB/IFD-INFO

AF/EPS-RLOMBARD (DRAFT)

EA/EP-AGEBER (DRAFT)

EUR/RPE-JTARRANT (DRAFT)

INR/DFR/RFC-RDOWELL (DRAFT)

TREASURY/OASIA-LDASH (DRAFT)

COMMERCE-PCARROLL (INFO)

AID/PPC/PDA-JKAY (DRAFT)

T-RWRIGHT (DRAFT)

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AMEMBASSY TOKYO PRIORITY

INFO AMEMBASSY BRUSSELS

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AMEMBASSY THE HAGUE

AMEMBASSY OSLO
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E.O. 11652: N/A
TAGS: ENRG, GE, JA, EGEN
SUBJ: ECG: COMMENTS ON DRAFT DISCUSSION PAPER ON
PROSPECTS FOR ACCELERATED INDUSTRIALIZATION
AND DEVELOPMENT IN OIL-PRODUCING COUNTRIES
REF : TOKYO 5078

1. THERE FOLLOW OUR COMMENTS ON APRIL 3 GERMAN/JAPANESE
DRAFT DISCUSSION PAPER FOR MAY 2-3 MEETING OF ENERGY
COORDINATING GROUP (ECG). REQUEST ACTION ADDRESSEES CONVEY
COMMENTS TO APPROPRIATE HOST GOVERNMENT OFFICIALS SOON AS
POSSIBLE WITH VIEW TO FINAL GERMAN/JAPANESE DRAFTING SESSION
APRIL 24 IN TOKYO. WE FIND DRAFT GENERALLY SATISFACTORY AS
PRELIMINARY GUIDE TO DISCUSSION. DETAILED COMMENTS BELOW
FOLLOW OUTLINE IN DRAFT PAPER.

2. INTRO; PARA I: SUGGEST INDICATE SECTION C "POSES
PRINCIPAL QUESTIONS" RATHER THAN "FIRST CONCLUSIONS".
IS WOULD ACCORD WITH SECTION HEADING ON PAGE SIX AND
NTENT OF PARAS 10 AND 11.

3. PRECONDITIONS FOR INDUSTRIALIZATION AND DEVELOPMENT,
PARAS 2 AND 3: WHILE WE FIND THIS ANALYSIS GENERALLY
SOUND, IT SEEMS TO NEGLECT POSSIBILITY OF IMPORTING CERTAIN
INDUSTRIAL REQUISITES SUCH AS RAW MATERIALS. PERHAPS
"NECESSARY CONDITIONS" WOULD BE BETTER TERM THAN "PRECONDI-
TIONS" FOR INDUSTRIALIZATION.

4. II. PROSPECTS FOR DEVELOPMENT, PARA 4: WE SUGGEST IT
IS "USEFUL" RATHER THAN "NECESSARY" TO DIVIDE COUNTRIES
INTO GROUPS, WE ALSO FIND COUNTRY CATEGORIES A, B, AND C
SOMEWHAT OVERSIMPLIFIED. SUGGEST LANGUAGE TAKE ACCOUNT OF
EVIDENT EXCEPTIONS. FOR INSTANCE, WE SUGGEST ALTERNATIVE
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PHRASING THIRD SENTENCE OF 4A: "TYPICALLY, THEY ARE
THINLY POPULATED AND THEREFORE, EVEN WITH HIGHER PARTICIPA-
TION RATES, THEIR INDIGENOUS LABOR FORCES STILL WOULD BE
SMALL. THEY LACK TECHNOLOGICAL AND MANAGERIAL KNOW-HOW,
THEY HAVE TRADITIONALLY-BASED SOCIAL STRUCTURES, THEY
POSSESS LIMITED RAW MATERIALS WITH THE EXCEPTION OF ENERGY.
MOST DO NOT YET HAVE EFFICIENT TRANSPORT NETWORKS OR FULLY
ELABORATED LONG-TERM DEVELOPMENT PLANS." IN RESPECT TO

CATEGORY B, WE BELIEVE PROBLEM OF OBTAINING TECHNICAL KNOW-HOW MAY NOT BE AS GREAT AS DESCRIBED, ASSUMING WILLINGNESS TO BRING IN FOREIGN PERSONNEL. ALSO APPEARS TO US THAT KINDS OF MANUFACTURING BEING TRANSFERRED INTO THESE COUNTRIES (E.G., PETROCHEMICALS) ARE NOT LIMITED TO "TECHNOLOGICALLY SIMPLE KIND". WE SUGGEST REPHRASING THIRD AND FIFTH SENTENCES ACCORDINGLY. IN RESPECT TO CATEGORY C, OIL PRODUCING COUNTRIES WITH LOW PER CAPITA INCOMES, WE EXPECT THAT SPENDING ON IMPORTS WILL RAPIDLY ABSORB OIL REVENUES. WE SUGGEST ELIMINATION OF FOURTH SENTENCE ("IMPORTS ARE THEREFORE NOT LIKELY TO RISE PARTICULARLY FAST").

5. PARA 6: IN RESPECT TO FIRST SENTENCE, WE SUGGEST MORE SPECIFICITY AS TO ASPECTS OF IMPORT "PATTERN" WHICH WILL ONLY CHANGE WITH INCREASED ABSORPTIVE CAPACITY. WE ALSO WOULD PREFER MORE NEUTRAL LANGUAGE REGARDING WAY ABSORPTIVE CAPACITY GROWS, SUCH AS: "PATTERN WILL ONLY CHANGE IF THE CURRENTLY LIMITED ABSORPTIVE CAPACITIES OF THE OPEC COUNTRIES GROW SUBSTANTIALLY."

6. PARA 7: WE ARE NOT CLEAR WHETHER FINAL SENTENCE ADDS ADDITIONAL CONCEPT. AS WE READ PARAGRAPH, IT WOULD SUFFICE TO MODIFY PENULTIMATE SENTENCE TO READ, "TO THE EXTENT AND AT THE RATE THAT THIS HAPPENS, ..." AND ELIMINATE FINAL SENTENCE.

7. PARA 8: SINCE WE DISCERN PATTERN TO DATE OF OPEC INVESTMENT PREFERENCE FOR CERTAIN DEVELOPED COUNTRIES, WE SUGGEST MODIFYING FIRST SENTENCE TO READ: "IT IS DIFFICULT TO SAY WITH ANY PRECISION WHERE OPEC COUNTRIES WILL INVEST THEIR INCREASED REVENUES". IN SECOND SENTENCE WE SUGGEST DELETING PARENTHETICAL "IN ABSENCE OF ATTRACTIVE ALTERNATIVE LIMITED OFFICIAL USE

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TIVES" AS UNNECESSARY. WE SUGGEST ADDING NEW THIRD SENTENCE: "SIGNIFICANT FLOWS OF OPEC FUNDS ARE LIKELY TO ASSIST REGIONAL DEVELOPMENT IN AREAS SUCH AS THE MIDDLE EAST." WE THEN WOULD MODIFY FINAL SENTENCE TO READ: "HOWEVER, THE UNEVEN REGIONAL AND SECTORAL SPREAD OF INVESTMENT BY OPEC PRODUCERS COULD CAUSE PROBLEMS, OF

DIFFERING CHARACTER, FOR BOTH DEVELOPED AND INDUSTRIALIZED COUNTRIES."

8. PARA 9: WE SUGGEST MODIFYING FINAL CLAUSE OF FIRST SENTENCE TO READ: "...AND THEIR GROSS INVESTMENT IN THESE COUNTRIES MAY EVEN RISE." THIS IDEA COULD BE ELABORATED TO CLARIFY THAT INCREASED NET CAPITAL OUTFLOWS FROM INDUSTRIALIZED COUNTRIES ARE NOT EXPECTED; THEIR

PARTICIPATION IN DEVELOPMENT PROJECTS IN OIL PRODUCING
COUNTRIES IS LIKELY TO BE FINANCED ON DIFFERENT BASIS THAN
IN PAS
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